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David Humphreys
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February 13, 2006

Representative Ray Cox
Kansas State House of Representatives
State Capitol, Room 431-N
300 S. W. Tenth Street
Topeka, Kansas 66612

Re: Written Testimony of David Humphreys
On Behalf of Humphreys Wallace Humphreys, P.C.
1724 East 15th Street
Tulsa, Oklahoma 74104
In cooperation with the Oklahoma Coalition of Consumer Advocates
Submitted to the Kansas State House of Representatives

Dear Representative Cox:

Thank you very much for the opportunity to submit my testimony, in the form of these written comments, regarding your consideration of Senate Bill 376. I am a lawyer in the practice of law in Tulsa, Oklahoma. My firm represents people who have been defrauded in consumer transactions, as well as business interests that have been harmed by unfair, anti-competitive business practices. I am a member of the National Association of Consumer Advocates and am a founding member and currently serving as Chairperson of the Oklahoma Coalition of Consumer Advocates.

I would like to share with you my experiences with the business practices of Security Finance as I know them, as well as the overall effect that this type of lending has had in the state of Oklahoma. I am more familiar with the lending practices of Security Finance than I would like to be. My partner, Luke Wallace, and I devoted the majority of our working time for fourteen months, from November, 2003 through January, 2005, involved in fact-finding, investigation and, ultimately, presenting a predatory lending case to a jury in Tulsa County, Oklahoma against Security Finance Corporation of Oklahoma and affiliated companies. Our fact-finding and investigation has included reviewing literally tens of thousands of pages of internal company records and taking sworn testimony, both pretrial and during trial, on no less than 50 occasions of everyone from customers of Security Finance, assistant managers, branch managers, supervisors, regional supervisors, vice presidents, executive vice presidents, and the senior executive officers of Security Finance Corporation of Oklahoma, Security Finance Corporation of Spartanburg and Security Group, Inc., as well as the individuals who direct, control, implemented and are responsible for Security Finance's fraudulent loan-flipping scheme in the state of Oklahoma.

I would like to begin by sharing with you some information about the case of Gary Gilbert, an incapacitated person, versus Security Finance. This case exposed predatory lending tactics employed by Security Finance and Maverick Acquisition and their employees against a mentally disabled man with an IQ of 59 named John Gilbert. At trial we proved that Security Finance renewed John's loans 37 times by using fraudulent and oppressive tactics. Security Finance and its sister company Maverick Acquisition, installment lenders under Title 14A of the Oklahoma Statutes, make installment loans, ranging in lengths of five to eight months, out of 100 unassuming store front loan shops in Oklahoma. Although loan renewal is expressly permitted by Oklahoma law, Security Finance has developed and implemented an unlawful and fraudulent practice of using deception and oppression to flip loans. While the Oklahoma Department of Consumer Credit admirably supervises lenders under its jurisdiction, the reality of budget limitations compels the Department to focus its audits on paper disclosures and not on the painstaking interviews necessary to uncover the methods by which Security Finance obtains customer signatures on loan contracts. A Tulsa County jury found clear and convincing evidence of Security Finance's fraud, breach of fiduciary duty and violation of an implied covenant of good faith and fair dealing.

Although both Security Finance Corporation of Oklahoma and Maverick Acquisition operate under different corporate entities, the evidence at trial established the use of identical procedures and employees by them. Maverick Acquisition Corporation is the wholly-owned subsidiary of MACI Holdings, Inc. MACI is the wholly-owned subsidiary of Continental Holding Company. Susan Bridges owns 100 percent of Continental Holding Company in her individual name. Security Finance Corporation of Oklahoma is the wholly-owned subsidiary of Security Finance Corporation of Spartanburg. Security Finance Corporation of Spartanburg is the wholly-owned subsidiary of Security Group, Inc. Security Group, Inc. is the wholly-owned subsidiary of Security Group I, Limited Partnership. Security Group I, Limited Partnership is owned by a number of LLCs and trusts which are owned and controlled by the Bridges family. Susan Bridges acts as president of Maverick Acquisition Corporation, MACI Holdings, Inc., Continental Holding Company, Security Group, Inc., and is CEO of Security Finance Corporation of Spartanburg and serves as trustee of at least one of the family trusts that own Security Group, Limited Partnership. For the sake of clarity, the relationships between the companies can be simplified in the following chart:

Susan Bridges	Trusts/LLCs (Susan Bridges)
↓	↓
CHC	SGLP
↓	↓
MACI	SGI
↓	↓
MAC	SFC-S
	I.SFC-OK

Through a series of management agreements, the operations of Security Finance Corporation of Oklahoma, and each of the state operators, is provided by Security Finance Corporation of Spartanburg. Security Finance Corporation of Spartanburg has complete control

and direction over the activities of all employees of the state operators, including Security Finance Corporation of Oklahoma.

Security Finance employees admitted John was obviously disabled. Branch Manager Becky Nelson described John as a "lost soul," "[in]coherent," who "did not understand what was going on," and asked questions "like... a child, over and over." John was "obviously" different, according to Assistant Manager, Linda Moore. Manager Dawn Haight said that John repeatedly asked her if she knew his birthday and asked her to send him a card. Assistant Manager Audrey Worley stated that, "it was just obvious that there was something wrong with him" which was "even more obvious because I knew that he had a loan with us and he drew Social Security disability."

Moore knew John trusted her, cared about the people who worked there, bought them a big candy heart on Valentine's Day and made Moore a birthday greeting card. Nelson stated that John called "once a month to remind us when his birthday was so [the company] could send him a ...card." John relied on and trusted Nelson. Worley admitted John was not the only customer she dealt with that was slow. Numerous employees testified that many borrowers were disabled people whose sole income was SSI disability. Their loans were continually renewed (flipped).

The record established Security Finance employees carefully cultivated John's confidence and trust and used that confidence and trust to take advantage of him. When Assistant Manager Ted Henshaw first took John's credit application, he knew that John was disabled and that John's only source of income was SSI disability. Henshaw stated "My job is to ask the question and write down the answer ...I don't have to know whether he is confused or even gets it." As part of the application process, Henshaw did a budget for John to show John he could afford the loan. Henshaw budgeted $30.00 per month for John's food, admitting he did not know how a person could live on less than $1.00 a day for food.

Security Finance has a scheme to "flip," or renew customer loans every 60 days, after the borrower makes two payments, to maximize profit on finance charges with no regard to the customer's "need" to be renewed. These loan renewals are the cornerstone of their profits. Renewals intentionally prevent customers from paying off the loan. Renewals kept the customer's loan balance above the amount that could be paid off. Security Finance admitted that nothing in the contracts requires a customer to renew and that they never disclose to customers up front that they will be forced to renew when they can't make a payment on time.

When closing the first loan, Security Finance conceals that it intends to prevent loan payoff. Supervisor Dian Jensen admitted that company practice is to renew loans after two payments. Linda Burroughs, Vice President for the State of Oklahoma, approved supervisor Linda Clinton's instructions that "We must train our customers to renew every two months." Clinton instructed managers to renew customers every two months. Burroughs agreed that supervisory personnel asked employees to disregard any consideration of customer need to be renewed. Employees were instructed to "double team" and "gang up" on renewal-eligible customers and to "push renewals."

The finance charge for renewal consists of two extremely profitable components, the "Installment Account Handling Charge" and the "Acquisition Charge." The finance charge is "pre-computed," meaning the entire fee over the life of the loan is assessed up front and only a small portion is refunded when the loan is "renewed" or refinanced. The Acquisition Charge component is a flat fee of ten percent of the amount financed and is earned entirely in the first 60 days. The other component of the finance charge, the Installment Account Handling Charge, is front loaded, and Security Finance retains a majority of it upon renewal after 60 days. Upon renewal, Security Finance retains the vast majority of the pre-computed finance charges based upon its use of the rule of 78's. The formula for the rule of 78's is not disclosed and is, in any event, incomprehensible to most. Owner Susan Bridges was unable to perform the computations necessary to calculate a renewal using the rule of 78's. By use of the rule of 78's, Security Finance is able to thereby conceal the huge advantage it gains (at the customer's expense) of renewing (flipping) loans every 60 days.

Security Finance earns the vast majority of its profit by loan flipping, primarily because it earns the same finance charge on a renewal as a new loan, but only advances a fraction of the cash on a renewal. For example, on six separate occasions, Security Finance assessed a finance charge of $203.64 in exchange for extending $73.03 actual cash to John in the renewal loans dated October 1, 1999, March 1, 2000, September 1, 2000, September 7, 2000, and twice on March 1, 2001. In contrast, Security Finance must advance $676.36 in cash for each new loan carrying the same balance of $880.00 in order to earn the same finance charge of $203.64. Oklahoma Vice President Burroughs admitted that Security Finance had a substantial financial interest in renewing customers every 60 days and that John was renewed every 60 days so that Security Financial could achieve maximum profit.

In July, 1999, Security Finance renewed one of John's loans, providing for eight monthly installments, and assessed charges of $203.64. By renewing that loan in 61 days, Security Finance kept the entire Acquisition Charge of the finance charges assessed over a supposed eight-month loan. John received $96.82 in cash, and paid $146.00 for use of the money for 61 days.

John's loans were renewed a staggering 37 times, 25 times at Maverick in Tulsa and the other 12 times at Security Finance in Sand Springs. Although each loan contained repayment terms in installments spanning between five and eight months, 31 out of 37 renewals took place within approximately 60 days.

Security Finance does not tell their customers, including John, they intended to (1) renew loans every 60 days; (2) interfere with the customer's contractual right to pay off the loan in monthly installments; (3) renew the loan in order to prevent payoff; (4) prevent the customer from ever paying off the loan; (5) prevent loan payoff by methodically increasing the loan balance; (6) force the customer to renew the delinquent loan once the customer falls behind. Security Finance employees were instructed to "gang up on the customer" if the customer refused to renew the loan, and not to take "no" for an answer when "selling" a loan renewal.

Further, Security Finance monitors and enforces these loan renewal practices by (1) giving employees renewal quotas; (2) pressuring employees to renew loans; (3) threatening

employees with termination for failure to renew loans; and (4) training employees to sell renewals by using half-truths, concealment and outright fraud, including misrepresenting the actual cost and supposed advantages of loan renewal while concealing the disadvantages. As a matter of policy, the company does not point out the whole truth or any of the disadvantages of renewing.

Security Finance fully intended to increase borrower loan balances to prevent loan payoff. Branch supervisor Kevin Geen initially denied that either raising a customer's loan balance or renewing a customer's loan would make it more difficult for the customer to pay off that loan. Confronted with his own memos, Geen admitted instructing employees to "push renewals" so that it would be harder for the customer to pay off the account. Further, managers were instructed to increase customer loan balances by extending additional credit when renewing the loan.

Security Finance's initial denial of a company policy to prevent loan payoff was refuted by their own internal records. The operations manual instructs, "[f]irst try to avoid the pay off." Geen admitted instructing employees that selling a "customer to renew their account will help keep the customer on the books longer. It prevents the customer from paying the account [out]."

Burroughs told employees to prevent loan payoff and "make sure we are doing our best at selling renewals. The higher the balance stays, the less pay offs you will have." A supervisor's report noted: "preventing pay offs will continue to be the goal in this office." In the "Customer Service" portion of the evaluation, the supervisor stated a desire to "[lead] by example of how to deter pay offs in the office." Supervisors repeatedly instructed employees to wrongfully interfere with the customer's lawful performance of loan obligations. "Make sure [that] your assistants are really trying to keep accounts from paying us off this month." Burroughs and Geen admitted to giving no consideration to borrower need when selling renewals and instructing employees to be "very aggressive" in selling renewals.

Geen demonstrated this aggressiveness by renewing John's initial loan for $185.00, which originated in April, 1997, four times in less than six months, ultimately raising John's account balance from the original $185.00 to the maximum allowed, on April 1, 1999, of $880.00, over a 400% increase. The payment on the loan was $110.00. Even by making extra payments of $50 at times, John was never able to pay off his loan because the renewals buried him in debt. John believed employees when they told him renewal was a "good idea." John thought the "most [he] borrowed was $90.00, $50. I wouldn't borrow over $100." No one told him that he did.

John's monthly income was only $533.00. John ultimately owed three monthly payments to Security Finance totaling $290 a month. When John's first loan was maxed out, Maverick's sister branch, Security Finance in Sand Springs, gave him a second loan on July 19, 1999. Repeating the loan renewal pattern, this loan was likewise raised by May 1, 2000, to the maximum balance of $880.00. One month later, on June 1, 2000, John was referred by Maverick to Security Finance of Tulsa, where John opened a loan of $420.00, with monthly payments of $70.00. Henshaw took a payment of $110.00 from John and then referred him to Security Finance of Tulsa to apply for another loan, which he did less than one hour later.

Assistant branch manager Worley, knowing John could not afford to make the multiple monthly loan payments to Security Finance, referred him to yet another loan store to borrow the money to make a payment. Maverick sent John to Star Loans and Security Finance sent John to World Acceptance Loans to borrow money so John could make monthly loan payments to Maverick and Security. The World Acceptance credit application indicates that John was referred to them by Security Finance, located just a few blocks away in Sand Springs. John paid Security the same day he received a loan from World.

In order to justify yet another loan, Security Finance of Tulsa employees prepared a budget disregarding the existence of monthly loan payments due to Security Finance of Sand Springs and dropped John's budget for food to $20.00 monthly with no provision for any transportation.

John became homeless. In December 2000, John made total loan payments of $510.00 to Security Finance and Maverick out of a monthly income of $533.00. Following his December 2000 payment, John could not pay his rent and had to leave his subsidized apartment.

Store manager Dawn Haight instructed Stephanie Tyner, Assistant Manager for Security Finance in Sand Springs, to pick John up from the homeless shelter and bring him to the office to make one of his three past due payments and renew his loan again. According to Tyner, it was "not [her] problem" and "really not any of [her] concern" that John was homeless. Her concern was that she did not like going to the homeless shelter because there were "a bunch of scary looking homeless people" there. When John arrived at the office with Tyner, his loan was renewed even though he did not have enough money to make the payments due, consistent with the Security Finance "insist on pay or renew up to date" policy.

Assistant Manager Moore knew that John was homeless and stayed at the Salvation Army Shelter. John's homelessness did not deter Security Finance. Moore continued to renew John's loan as instructed to do so by her supervisor, Dian Jensen.

John remembered being told that they would come get his car and T.V. if he didn't make his payments. Henshaw told John that if he defaulted for any reason, "no threat, just fact, [Security Finance'...[would] have the right to get [his car and T.V.] out in front and put a for sale sign on them until [the] account [was] satisfied." John believed Henshaw and made his payments out of fear. Company practice prohibits taking collateral; the threat was made solely to obtain a renewal.

Vice President Burroughs admitted that Security Finance, and not the customer, decide whether a loan will be paid out as agreed in the loan contract or whether the loan will be renewed.

Manager Nelson was criticized for only raising seven customer loan balances in one month with the comment, "weak, weak" by Regional Supervisor Joni Wilson. Nelson was specifically criticized by her supervisor, Jensen, for allowing loans to be paid off. Geen warned employees that if they allowed customers to make regular installment payments, the account balance would decrease, having the undesired consequence of making it possible for the

customer to pay off the loan without renewal. Security Finance expected their employees to renew customers and pressured employees to prevent customers from paying off loans. Employee evaluations were based on the ability to renew.

Employees were expected to renew every loan unless instructed to "collect out" a specific loan. "Collect out" means to permit the customer to pay out the loan in installments as stated in the loan contract. When Nelson decided to collect out John's loan, permitting him to pay it out without another renewal, that decision was overridden by supervisor Jensen. Nelson noted on the computer's collection screen that John's loan was to be "collected out." Even though Nelson explained to Jensen that John was disabled and overextended, Jensen ordered her to renew John's loan "because we make money off of him." Nelson's computer notation to collect out John's loan "disappeared," deleted by Jensen. Nelson renewed John's loan, afraid that a record of warning would be placed in her file.

One internal memo instructed "not to collect out" accounts because these are "our type of customers" and "you don't want to collect them out, you want to get them into the office to renew them." Burroughs wrote, "If a customer pays a month late, we only have the ability to renew the account three times a year instead of four."

Burroughs instructed employees to renew even past due loans. Employees declined customer payment and renewed the customer instead. Burroughs instructed managers not to accept payment, but to renew the customer, which increased profits. Burroughs required managers insist customers pay their loan or renew it up to date. Company policy insisted that a customer who owed two or more payments, but only had money to pay one, perform an impossible task (pay money they do not have) or "renew up to date." The intended result of this practice was to force customers to renew. What "we really need to work on is requiring customers to visit the office when they are past due." Never let any customer leave your office still past due until after you have sat the customer at your desk and required pay or renew up to date."

Security Finance renewed chronically delinquent customers, who were in the "slow file" to keep them trapped in perpetual debt. Generally, one-third of their borrowers are unable to make their payments. By renewing "slow file" customers, Security Finance retained these accounts because the customers would not be able to pay off the loan.

Linda Clinton, who supervised the Sand Springs branch in 2001, admitted that John's loan was renewed when three payments were due and he only had enough money to make one full and one partial payment. Security Finance renewed the loan, assessed a new set of finance charges and treated his loan as "current." Clinton, after initially claiming that she did not renew customers who were 90 days' late, admitted that it was acceptable practice to continue to renew John's loans even though he was a "chronically delinquent" customer who was unable to make payments when due.

Security Finance created a substantial financial incentive for store managers and senior management to actively participate in the loan flipping scheme. Internal evaluations prepared by branch supervisors repeatedly urged management to renew customers in order to earn cash

bonuses. "Seventeen accounts for $6,420 in renewals in the slow file. This would put the office about even on turnover, increase the collection by $3,240 and thereby making $700 more in charges, and charges is where your profit comes from, so think renew when working 'the slow file.'"

Executive Vice President Ken Younce admitted that out of his total annual income of $351,000, $251,000 was bonus money based upon profits earned in the branches. According to Nelson, "We were in the business to sell renewals. The more renewals you do, the more money you made. The more money you made, the more profit the store made. The more money you made on your profit, the more money everybody made." Henshaw admitted being placed under pressure to meet quotas, that loans were renewed to meet quotas and in order for the "brass" to get their bonuses.

Burroughs denied knowing whether the company's primary business was to sell loan renewals. She denied the operations manual statement "renewals are sold, not bought" was accurate or even "made sense." Ray Biggs, President of Security Finance of Oklahoma and Security Finance of Spartanburg, admitted that the operations manual fairly sets forth the company's renewal practices. Burroughs' internal memos instruct that "renewals are the company's bread and butter." The operations manual states: "The bulk of company profits are obtained from renewals;" "Renewals are SOLD, not bought;" and "[t]he majority of [your] loans are to be renewals if your office is to obtain the percent collections and turnover that is required for a substantial profit."

According to Burroughs, John was not singled out for treatment any different from any other borrower. Executive Vice President Kent Younce acknowledged that renewals constituted nine out of every ten dollars of Security Finance's profit. Annual financial statements established an annual loan volume for new customers of just $7.9 million versus $85.7 million in borrower renewal loans.

Security Finance enforces its loan flipping scheme by placing tremendous pressure on employees, including threatening them with termination, if customer accounts are not retained by renewing or flipping the loans.[1] Security Finance imposes quotas for loan turnover. The number of renewals is carefully tracked at each branch. Although admitting that a store manager was in the best position to know whether a customer was overloaded with debt, Burroughs instructed a supervisor to "correct" a manager's attitude when the manager worried about her customers being "overloaded," or trapped in debt.

Burroughs criticized branch personnel for not pushing renewals. One supervisor reported "profit down. Must push renewals." Supervisor Geen instructed employees to be "very aggressive on selling renewals since we're behind almost $20,000 in loans this month." Clinton trained employees not to take "no" for an answer on the first, second or third time, specifically instructing employees to create a need for the money even if the customer says, "No."

Security Finance's abuses were not limited to John Gilbert. Jessie Bluebird's loans were renewed in an excess of 125 times over a ten-year period. Bluebird is elderly, lived alone,

[1] A store manager in Weatherford lost accounts due to payoffs over a two-year period and was terminated.

suffered severe brain damage in a motor vehicle collision, suffered strokes and was unable to fully care for himself. Bluebird is not competent to understand loan transactions and renewals, but was renewed since the early 1980's by Security Finance. His testimony was preserved by videotape.

Marie Boney is an elderly Cherokee woman who does not speak English and is physically and mentally disabled. Security Finance repeatedly renewed her loan, although she could not understand the loan transactions. Her testimony was preserved by videotape.

Margaret Winton, mentally-challenged customer of Security Finance, was unable to understand the terms of the loan transactions. Winton made payments to Security Finance rather than paying utilities, leaving her without heat during freezing weather with snow on the ground.

Mike Longwell, physically and mentally disabled, did not understand the loan transactions. He worked as a greeter at Wal-Mart and often spent nearly his entire paycheck in payments to Security Finance. Longwell's loans were renewed for ten years.

David Foster is obviously physically and mentally disabled, but was solicited by Security Finance while he was in one of Security Finance's offices with his mother. He declined a loan upon the advice of his mother, but Security Finance tried to persuade him that a loan would be good for him.

Branch manager Rachel Hernandez testified that during her employment with Security Finance, she made loans to customers whose mental status concerned her. One of her customers would have conversations with herself and appeared to have two separate personalities. Another customer had obvious mental and physical impairments and did not seem to fully understand what he was being told. I was told "we must renew everybody, it doesn't matter." Another customer was never fully alert as to what was going on, lived in a home which was falling down, and was frequently ill. While an employee of Security Finance, Hernandez collected payments from individuals who were homeless and living in a shelter. Hernandez discussed the homelessness with her manager and was instructed to find out when she would be getting the next payment. She further testified that even if a customer could not afford to pay their utilities, the loan payment was to be collected. There were customers whose homes had "ungodly smells" and were falling in, but "that's no big deal."

In the four and a half years Manager Ted Henshaw worked for Security Finance, he dealt with hundreds of customers. Henshaw testified: "...I saw too many people that were in a terrible, terrible rut and hurting terribly financially... [they] came into a small loan company [and] were hurting already and could not go to a bank or legitimate lending institution and the next thing you know, they might have a loan in a dozen places and could not make that many payments...and so you go down one side of the street renewing your loans and go down the other side making payments." Henshaw stated that "once a borrower enters a loan shop, he's on the road to destruction, ruin and bankruptcy."

Should you permit Security Finance and other out-of-state installment lenders to enter your state, you will likely experience a tremendous negative effect in your local areas where

these lenders open. Security Finance has a sophisticated marketing operation and we believe that the evidence established that it intentionally targets vulnerable people. Its abysmal practices including targeting "your type of customer." Having done so, under the assumption that "birds of a feather flock together," Security Finance teaches its employees to obtain as many references as possible to target these individuals as well. Evidence at trial established that approximately ten thousand of Security Finance's customers in Oklahoma alone are mentally or physically disabled, elderly, infirm or otherwise were receiving limited, fixed income benefits. Essentially, Security Finance has developed a method to extract millions of dollars in state or federal aid that has been paid for by taxpayers for the benefit of the most vulnerable among us.

Security Finance, through a series of tax avoidance schemes, pulls the money out of the host state into tax-free havens. This is done by expensing monthly "management fees" of a percentage of the total ledger balance of all loan shops located in the host state. Over the course of one year alone, Security Finance Corporation of Spartanburg was able to extract 14 ½ percent of the entire Oklahoma loan portfolio as a supervision fee amounting to the sum of more than $3 million in 2001 in Oklahoma alone. Security Finance also charges "royalty" and other fees as a business expense, thereby taking a deduction which deprives the host state of taxable income based on the operations of Security Finance in the host state. Security Finance has purchased no real estate in the state of Oklahoma, pays minimal rents in each host location, brings no significant assets into the state. Its assets in Oklahoma consist mostly of its loan accounts, chairs and minimal office furniture and equipment. Security Finance spends as little money as possible in the host state, mostly prohibiting local advertising in community newspapers or phonebooks, preferring to send direct mail from its corporate offices. Security Finance even prohibits the local branches from using local printers, using instead its corporate-owned printing press.

A.G. Williams is the Chief Financial Officer of Security Finance Corporation of Spartanburg, Security Group, Inc. and an officer and/or director of each of the state operators. He is the director of approximately 25 Security Finance-related entities and serves on the same boards as President Ray Biggs. He admitted that each of the state branches in Oklahoma has a checking account and that Security Finance Corporation of Spartanburg electronically sweeps out and collects money from each of the branches into an account in South Carolina owned by Security Finance Corporation of Spartanburg. In 2000, Security Finance Corporation of Oklahoma declared and paid a dividend of $56 million to Security Finance Corporation of Spartanburg. Similar transactions were structured by other state operators to pay substantial dividends. The multimillion dollar dividends were made payable through a promissory note that was assigned by Security Finance Corporation of Spartanburg to SFC Funding, LLC, a Nevada limited liability company, another wholly-owned subsidiary of Security Finance Corporation of Spartanburg. These notes were designed as a "tax planning idea," to pull money out of the local states and transfer income to the state of Nevada to avoid payment of state income taxes.

The evidence in Oklahoma is clear. What happened to John Gilbert was not the result of a rogue employee. It was part of a calculated corporate effort to extract maximum profit through loan flipping. Security Finance is a very tightly organized, controlled and disciplined enterprise. The president of Security Finance Corporation of Spartanburg has admitted to the existence of a training department, from which Security Finance of Spartanburg sends trainers into Oklahoma and other states to train employees. The training materials used in the states are owned by

Security Finance Corporation of Spartanburg. Supervision forms evaluating every aspect of branch operations are prepared by branch supervisors, reviewed and critiqued by state level executives, and sent to corporate headquarters in Spartanburg.

President Ray Biggs is paid by Security Finance Corporation of Spartanburg and sits on the boards of most all of the 17 different corporations in the 17 various states that Security Finance operates in. Biggs admitted that he is not aware of any director who has ever cast a vote contrary to that of owner Susan Bridges. Biggs admitted that the Bridges family controls both Security Finance Corporation of Spartanburg and each state operator.

Security Finance used nearly every conceivable technique to attempt to avoid turning over critical facts concerning its business practices. The Oklahoma District Court specifically found that Security Finance Corporation of Oklahoma and Maverick Acquisition Corporation acted with the intent "to make it so difficult or expensive to pursue litigation that it would be abandoned by Plaintiff." In Oklahoma, Security Finance engaged in abusive and sanctionable conduct, including destroying or failing to account for two years' worth of corporate records it claims to have mysteriously disappeared, in spite of an order from the District Court to preserve its records. General Counsel Marshall T. Walsh submitted numerous inconsistent affidavits, under oath, in an attempt to have the court dismiss the Spartanburg corporate Defendants. General Counsel Walsh also gave sworn testimony under oath which was inconsistent with his sworn affidavits provided to the District Court. Security Finance delayed turning over corporate records, although ordered to do so, to prevent its employee witnesses from being examined using the contents of its corporate records. Security Finance repeatedly improperly interfered with the fair examination of its employee witnesses during the pretrial sworn testimony.

The evidence established that Security Finance's annual loan volume exceeded $80 million in Oklahoma due to renewal or loan flipping, while loan volume for new loans was *less than* $8 million. The vast majority of Security Finance's profits comes from loan flipping and Security Finance has demonstrated that it will do almost anything to preserve its profitable franchise.

I have no financial interest in the outcome of your decision, nor any financial interest in further dealings with Security Finance. All district court litigation against Security Finance in which my firm is involved is no longer pending. We are waiting on the Oklahoma Supreme Court to affirm the judgment rendered by the District Court based upon the jury verdict of twelve. Oklahomans who found Security Finance's business practices outrageous and despicable.

On December 14, 2004, one week following the jury trial verdict, the Tulsa World Editorial Staff wrote an opinion piece entitled, "Tulsan Victimized By Lenders." The Tulsa World wrote:

> "Tulsa County jurors last week awarded Gilbert $15,000.00 in actual damages and $1.75 million in punitive damages against Security Finance Corporation of Oklahoma and Maverick Acquisition Corp. South Carolina-based corporations that control operations of the loan agencies also were held liable.

The jury ruled in Gilbert's favor on claims of fraud, breach of an implied covenant of good faith and fair dealing and breach of fiduciary duty. Gilbert was victimized by the practice of 'loan flipping' or continually and repeatedly financing loans… .

The amount of punitive damages suggests that jurors were outraged by treatment that Gilbert's lawyers term 'reprehensible.'

The verdict should serve as an eye-opener for the Oklahoma Legislature, which in recent years has turned a cold shoulder to the state's most economically vulnerable and unsophisticated citizens when it comes to protecting them against unscrupulous lenders.

Loan flipping and other potentially harmful practices continue to run rampant in Oklahoma, according to advocates for the poor. John Gilbert's story is perhaps worse than most, but it illustrates what can be done to vulnerable Oklahomans -- with the Legislature's blessing." *Tulsa World*, December 14, 2004.

I urge you to vote against Senate Bill No. 376.

Sincerely,

David Humphreys